

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 ACDA-12 CIAE-00 INR-07 IO-14 L-03
NSAE-00 NSC-05 EB-08 NRC-07 OES-07 SOE-02 DODE-00
DOE-11 SS-15 SP-02 COME-00 PA-02 USIA-15 PRS-01
/124 W

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P 170914Z JAN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 456

UNCLAS SECTION 1 OF 2 MANILA 0863

E.O. 11652: NA

TAGS: ENRG, RP, US

SUBJ: WESTINGHOUSE S.A. LETTER TO NEW YORK TIMES EDITOR

REF: STATE 011010

1. FOLLOWING FOR DEPARTMENT'S INFORMATION IS FULL TEXT OF
LETTER TO EDITOR OF THE NEW YORK TIMES FROM WESTINGHOUSE
S.A. ISSUED JANUARY 16, 1978 IN RESPONSE TO BUTTERFIELD AR-
TICLE OF JANUARY 14 (REFTEL) ALLEGING WRONGDOING BY WESTINGHOUSE
IN SECURING CONTRACT FOR PHILIPPINE NUCLEAR POWER PROJECT.
TEXT PROVIDED EMBASSY BY LOCAL WESTINGHOUSE REPS JANUARY 17.

BEGIN QUOTE:

THE EDITOR

THE NEW YORK TIMES

229 WEST 43RD STREET

NEW YORK, NEW YORK 10036

DEAR SIR:

WESTINGHOUSE STATES EMPHATICALLY THAT ALL COMMISSION PAYMENTS
ASSOCIATED WITH A NUCLEAR POWER PLANT CONTRACT IN THE PHILIPPINES
ARE REASONABLE AND PROPER. /NEW YORK TIMES, JANUARY 14/ WE WERE
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AWARDED THAT CONTRACT ON THE BASIS OF COMPETITIVE PROPOSAL AND
ON THE STRENGTH OF OUR WORLDWIDE NUCLEAR EXPERIENCE.

THE ARTICLE CONFUSES TOTAL PLANT COSTS WITH THE COST OF THE
WESTINGHOUSE CONTRACT, STATING AT ONE POINT THAT THE WESTINGHOUSE
"PRICE" HAD GONE TO DOLLARS 1.2 BILLION. THE TOTAL
COST TO THE PHILIPPINES OF THE COMPLETED PROJECT WILL BE

APPROXIMATELY DOLLARS 1.1 BILLION. THE WESTINGHOUSE FIRM PRICE CONTRACT IS VALUED AT APPROXIMATELY DOLLARS 320 MILLION. WE ARE SUPPLYING THE NUCLEAR REACTOR SYSTEM, TURBINE-GENERATOR AND EXTENSIVE AUXILIARY EQUIPMENT. IN ADDITION, WE ARE RESPONSIBLE FOR DESIGN ENGINEERING, AND PROJECT AND CONSTRUCTION MANAGEMENT, A ROLE THAT OTHER U.S. COMPETITORS WERE UNWILLING TO ASSUME.

AS PART OF OUR PROJECT ROLE, WESTINGHOUSE IS MANAGING MANY OTHER CONTRACTS INVOLVED IN THE CONSTRUCTION OF THE PLANT, SUCH AS CIVIL CONSTRUCTION AND ERECTION. WESTINGHOUSE RECEIVES NO ADDITIONAL FEE FOR THIS SERVICE.

OTHER FACTORS THAT GET THE TOTAL PROJECT COST UP TO DOLLARS 1.1 BILLION INCLUDE CUSTOMER RESPONSIBILITY FOR THE PROCUREMENT, CONVERSION AND ENRICHMENT OF URANIUM, LAND PREPARATION, ADMINISTRATIVE COSTS, TRAINING PROGRAMS, INDEPENDENT CONSULTING SERVICES, TRANSMISSION SYSTEMS, AND SITE PREPARATION FOR A SECOND UNIT.

ALSO SIGNIFICANTLY ADDING TO THE TOTAL IS SOME DOLLARS 285 MILLION IN FINANCING CHARGES SUCH AS INTEREST DURING CONSTRUCTION, PLUS APPROXIMATELY DOLLARS 215 MILLION IN PROVISIONS FOR ESCALATION, ONLY A PORTION OF WHICH APPLIES TO THE WESTINGHOUSE CONTRACT. ESCALATION ON THE WESTINGHOUSE CONTRACT IS BASED ON PUBLISHED U.S. GOVERNMENT INDICES.

BOTH THE WESTINGHOUSE CONTRACT PRICE AND THE TOTAL PROJECT COST
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ARE REASONABLE AND COMPETITIVE WHEN COMPARED WITH OTHER NUCLEAR PLANTS AROUND THE WORLD, INCLUDING THE RECENTLY ANNOUNCED MULTI-BILLION DOLLAR NUCLEAR PROJECTS PURCHASED FROM FRANCE AND WEST GERMANY.

WE FEEL THE PHILIPPINE GOVERNMENT DEMONSTRATED FORESIGHT BY MOVING EXPEDITIOUSLY ON THIS PROJECT SOON AFTER THE OPEC OIL PRICE INCREASES OF LATE 1973. OVER ITS LIFETIME, THE NUCLEAR PLANT WILL ELIMINATE THE NEED FOR IMPORTING OVER 200 MILLION BARRELS OF OIL, WITH A SIGNIFICANT POSITIVE IMPACT ON THE PHILIPPINE ECONOMY.

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THE NATIONAL POWER CORPORATION EMPLOYED A LEADING U.S. CONSULTING FIRM AS AN ADVISOR TO GUIDE IT DURING DETAILED CONTRACT NEGOTIATIONS WITH WESTINGHOUSE. IN ADDITION, THE PROJECT WAS REVIEWED BY THE U.S. EXPORT-IMPORT BANK BEFORE THE BANK AGREED TO PARTICIPATE IN THE FINANCING. THIS REVIEW INCLUDED SUBSTANTIATION AND JUSTIFICATION BY WESTINGHOUSE OF THE PRICE LEVELS INVOLVED, BOTH CONTRACT PRICES AND TOTAL PROJECT COST.

THE PROJECT IS SCHEDULED FOR COMPLETION IN DECEMBER 1982, AND IS NOW TWO MONTHS AHEAD OF SCHEDULE. BARRING THE UNFORESEEN, WE EXPECT IT TO BE COMPLETED EIGHT MONTHS AHEAD OF SCHEDULE RESULTING IN SAVINGS OF MORE THAN 100 MILLION DLRS. TO THE CUSTOMER IN INTEREST COSTS AND REDUCED OIL IMPORTS.

IT IS COMMON PRACTICE FOR U.S. CORPORATIONS TO USE SALES REPRESENTATIVES IN COUNTRIES THROUGHOUT THE WORLD. THEY ARE USED AS AN ALTERNATIVE TO ESTABLISHING LARGE AND EXPENSIVE SALES AND SUPPORT FORCES OF OUR OWN IN THOSE COUNTRIES.

WE ACKNOWLEDGE PAYING SERVICE FEES AND COMMISSIONS TO TWO COMPANIES IN THE PHILIPPINES WHO ARE SERVING AS SALES REPRESENTATIVES ON THIS PROJECT. THERE IS NOTHING UNUSUAL ABOUT THIS. THERE PAYMENTS ARE REASONABLE AND PROPER AND ARE WITHIN CORPORATE GUIDELINES THAT WERE ESTABLISHED TO ASSURE CONFORMANCE WITH EXISTING U.S. AND UNCLASSIFIED

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FOREIGN LAWS.

WE ARE LOOKING AT THE LARGEST INDUSTRIAL PROJECT EVER UNDERTAKEN IN THE PHILIPPINES, WITH A DESIRE ON THE PART OF THE CUSTOMER FOR MAXIMUM USE OF LOCAL SUBCONTRACTORS, MATERIALS AND SERVICES. IT IS ONLY THROUGH THE GUIDANCE OF KNOWLEDGEABLE LOCAL REPRESENTATIVES THAT WE CAN OBTAIN THE LOCAL SKILLS AND EXPERTISE THAT WILL RESULT IN TIMELY COMPLETION OF PROJECT OF THIS MAGNITUDE. THE FACT THAT WE ARE ALREADY AHEAD OF SCHEDULE GIVES US CONFIDENCE IN OUR SELECTION OF THE LOCAL REPRESENTATIVES.

WESTINGHOUSE AND ITS LICENSEES HAVE SOLD 84 NUCLEAR REACTOR SYSTEMS
OUTSIDE OF THE UNITED STATES, INDICATING WIDESPREAD WORLDWIDE
ACCEPTANCE OF OUR PROJECT.

WE ARE PROUD OF OUR ROLE IN THE PHILIPPINE NUCLEAR POWER PLANT
PROJECT. WE ARE CONVINCED THAT THE PROJECT WILL BE COMPLETED ON OR
AHEAD OF SCHEDULE AND THAT THE CUSTOMER WILL BE PLEASED WITH THE
FINAL RESULTS.

SINCERELY YOURS,

GORDON C. HURLBERT
END QUOTE.
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